SYDNEY WATER PRICING

The Independent Pricing and Regulatory Tribunal of NSW (IPART) is currently considering an application by Sydney Water Corporation to increase the retail price of its services from 1 July 2008. Sydney Water is asking for an average price increase to residential customers of about 33 per cent over four years.

While IPART is unlikely to grant the full increase, a substantial price rise is still likely. For an average household consuming 250 kL per year, the annual cost of water would rise from $806 in 2007 to $1095 in 2012 (excluding inflation), or nearly two per cent of average household income. For pensioners, the price increase will be 45 per cent over four years, as the Combined Pensioners and Superannuants' Association (CPSA) has pointed out.

"This massive ongoing cost must be met by consumers and is the real cost of 'droughtproofing' Sydney."

The proposed price increase comes only two years after IPART approved higher Sydney Water charges for 2005-09, and is largely prompted by the need to pay for the construction and operation of the Kurnell desalination plant. This amounts to about 40% of the expenditure Sydney Water is attempting to recoup over four years. The other items are recycling and demand management (about 10%), financial viability (20%) and 'renewals, servicing growth and operating licence' (30%).

Even if the desalination plant is needed at some future time because water restrictions, rainwater tanks, recycling and other measures have not reduced demand sufficiently, and even if its massive power needs are met solely through new renewable energy supplies, the plant is being built at a time when it will not be needed for a minimum of five years, at a capital cost to consumers of around $2 billion.

Operating costs are estimated at $55 million per year when the plant is operating at half capacity (250 ML/day). When the need to obtain a return on the capital investment is included, the total revenue requirements will rise to $232 million in 2011-12. This massive ongoing cost must be met by consumers and is the real cost of 'droughtproofing' Sydney.

In its submission to IPART, PIAC also raised concerns about the composition of the proposed increase; the proposal to charge most of the increase in the first two years; the impact on low-income households; and some of the proposed miscellaneous charges such as late fees and credit card payment fees.

PIAC also objected to Sydney Water's presentation of inclining block tariffs as a conservation measure, since water usage is generally recognised not to respond strongly to price increases. Water restrictions have proven to be more effective in reducing consumption.

Sydney Water argued that part of the price increase is needed to cover $385 million in revenue it claims has been lost due to water restrictions. Consumers are receiving mixed signals. They are being told they need to conserve water, but the less they use, the more they are effectively charged for it.

The problems Sydney Water is currently facing are largely the result of the conflict between its role as a monopoly supplier of an essential service delivering a scarce commodity, and the need for a corporatised utility to return a dividend to the State Government. The more water it sells, the more money it returns to the Government. On the other hand, it is at the mercy of variable climatic conditions and is expected to help its customers save water.

The accelerating impact of climate change will make it hard to avoid substantial rises in the cost of water as well as energy. PIAC is working to ensure these increases happen in a manner that does not unfairly impact on vulnerable consumers.

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NEWSLETTER OF THE ENERGY + WATER CONSUMERS' ADVOCACY PROGRAM
A PROJECT OF THE PUBLIC INTEREST ADVOCACY CENTRE

WELL CONNECTED

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EDITORIAL

Welcome to the latest edition of *Well Connected*; my first as Senior Policy Officer, and Hugh O'Neill's second as Policy Officer. With the ongoing debate around the privatisation of electricity in NSW and the application by Sydney Water for a substantial price rise in September, it has been a challenging period for PIAC's Energy + Water Program.

2008 marks the tenth anniversary of the founding of PIAC's Utility Consumers' Advocacy Program (UCAP). PIAC plans to mark the occasion with a midyear conference, details of which will be announced in the next edition.

PIAC is grateful to the NSW Department of Water and Energy, which recently confirmed funding for another two years, for its ongoing commitment to a program that provides it with valuable consumer input, but which also provides critical comment on the State Government's approach to energy and water policy from time to time.

The name of the program was changed recently from the Utility Consumers' Advocacy Progam to the Energy + Water Consumers' Advocacy Program (EWCAP), so that PIAC's work is more easily understood in an era of market-driven energy and water industries.

The coming year promises to be another busy one for EWCAP. If the NSW Government's plans to privatise the electricity industry proceed, there will be considerable work involved in holding it to account over its promises regarding price protections for consumers and related energy efficiency and sustainability programs.

Another project that will be central to PIAC's work in 2008 is a review of the water and electricity supply issues faced by caravan park tenants. This is likely to lead to a State-wide review of payment assistance vouchers for consumers facing temporary hardship and pensioner rebates for water and energy.

This is in addition to PIAC's ongoing work as part of the National Consumers' Roundtable on Energy, which provides input from advocates of residential consumers into the National Energy Market (NEM).

Finally, there are two big issues that occupy much of our thinking. The first is the ongoing tension between the essential service nature of electricity and water, and the profit motive that drives private investment in these industries. UCAP began in 1998 in the wake of the initial move to full retail competition in the NSW electricity industry and the establishment of the National Electricity Market. While PIAC is not ideologically opposed to privatisation and full retail competition, there are few examples of deregulated markets delivering good outcomes for residential consumers.

In the last few years the impacts of the drought and climate change have become an increasingly large part of EWCAP's workload. From the effect on wholesale electricity prices of the reduced supply of water available to run power stations, through the range of energy and water efficiency programs now available, to the question of how to cushion low-income households from the price impacts of the forthcoming National Emissions Trading Scheme, encouraging sustainability has become a key program outcome.

In both of these policy areas, PIAC is driven by the belief that people should have the greatest possible degree of control over the energy and water they consume. PIAC therefore hopes to create more opportunities to listen to the voices of the consumers it serves.

Mark Byrne, Senior Policy Officer

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THE FUTURE OF THE NSW ELECTRICITY INDUSTRY

Following the release in September of the *Report of the Owen Inquiry into Electricity Supply in NSW*, PIAC commissioned the Institute for Sustainable Futures at the University of Technology, Sydney (UTS) to conduct an analysis of the economic, consumer and environmental impacts of the report's recommendations.

The UTS report, *Electricity Supply in NSW: Alternatives to Privatisation*, reviews Australian and international experiences with electricity privatisation. It argues that the Owen Report seriously overstated the case for privatisation. It also demonstrates that future demand can be met through a combination of energy efficiency measures and new renewable energy power stations, without the need to lease the generators and sell the retailers.

> **"Privatising power seldom results in lower prices or better service for consumers."**

The UTS/PIAC report was released on 10 December 2007, the same day that Premier Iemma announced the privatisation of the generation and retail sectors of the industry. In a media release issued that day, PIAC stated that it remained unconvinced of the benefits of selling off the industry. Privatising power seldom results in lower prices or better service for consumers. It creates private corporate demand for less regulation and limits public scrutiny.

The Government's decision also flies in the face of the need to curb greenhouse emissions. Encouraging companies to build new coal- or gas-fired power stations will add to emissions and increase costs for consumers as the cost of carbon escalates.

It would also seriously undermine the positive initiatives announced by the Government, such as providing an additional $60 million for the existing Renewable Energy Development Fund and a new Energy Efficiency Strategy to reduce energy needs and greenhouse emissions.

The Government should take this opportunity to make greater commitments to energy efficiency programs and the development of new renewable energy. PIAC and other social justice and welfare organisations are arguing for more open discussion about the long-term effects of privatisation before the NSW Government makes its final decision.

PIAC also has concerns about how the privatisation plan was announced. While the Government is keen to give the impression that State-owned electricity assets are being kept in public ownership, in fact the retail businesses of EnergyAustralia, Intergral Energy and Country Energy will be sold. The State-owned power stations will be leased for up to 50 years, which is tantamount to a sale. Naturally, the more conditions that are placed on these sales and leases to protect consumers and taxpayers, the lower their likely sale prices. Only the distribution businesses—the 'poles and wires'—will remain in public hands.

The Government also announced it would extend the role of the Independent Pricing and Regulatory Tribunal in regulating prices from 2010 through to 2013. The fine print, though, adds the disclaimer, 'or until it was satisfied there was sufficient competition in the retail energy market'. This is no guarantee at all. But even if prices are regulated until 2013, how will low-income and other vulnerable consumers be protected from price hikes thereafter?

PIAC is also concerned about the prospect of competition being hindered by a concentration of market power in the hands of a few players. This has occurred in the United Kingdom, where, despite over 20 companies entering the market in the late 1990s, now six companies control 97 per cent of the market.

Some of the initiatives announced by the NSW Government are existing policies and programs. Others, such as the proposed national energy efficiency trading scheme, are new but short on detail. If the privatisation does proceed, PIAC will endeavour to ensure the Government fulfils its promises and safeguards consumer interests in the process.

Electricity Supply in NSW: Alternatives to Privatisation can be downloaded from the PIAC website: www.piac.asn.au/publications/pubs/isf101207_20071210.html. Hard copies can be obtained by calling PIAC on 02 8898 6500.

The NSW Government's announcement is at www.premiers.nsw.gov.au/WorkAndBusiness/DoingBusinessInNSW/OwenInquiryIntoElectricitySupplyInNSW.htm

UPDATE ON SMART METERS

As readers of the last edition of *Well Connected* will be aware, the Ministerial Council on Energy (MCE) is investigating whether there should be a compulsory national rollout of smart meters in 2008.

Following a recent period of public consultation and after receiving reports from consultants, the MCE is currently deciding on the minimum 'functionalities' to be included in the meters.

The main issue for consumers is whether in-home displays are included (see box). The consultants' report to the MCE argues that the benefits of displays do not outweigh their costs. Without displays, the advantages of smart meters fall mainly to the electricity companies, through enabling them to better manage their supply in response to consumer demand.

In its submissions to the MCE, PIAC argued that in the absence of clear consumer or environmental benefits, and because the technology is evolving rapidly, the installation of smart meters should not be made compulsory at this stage.

If their introduction is mandated, the meters should be paid for by energy companies at no cost to consumers. Regulated block tariffs should also remain available for consumers who do not want, or are unable, to take advantage of the price signals the meters provide.

An early rollout of smart meters was included in the package of measures announced by the NSW Premier on 10 December 2007. However, following the MCE meeting on 13 December 2007, there is no indication that the privatisation plan will actually lead to an accelerated rollout of smart meters in NSW.

Premier Iemma has recently made confusing statements about the rollout, giving the impression that the 160,000 smart meters already installed by EnergyAustralia have in-home displays (they don't), and that a mandated rollout will include displays. At this stage this appears unlikely.

IN-HOME DISPLAYS

If you watched *Carbon Cops* on ABC TV earlier this year you'd have seen smart meters in action. Green, orange and yellow lights lit up on the panel of an in-home display to tell householders how much energy they were using. They could then either sit back and relax or scurry around switching off appliances until their consumption dropped to an acceptable level.

However, displays are expensive: up to $140 each. Trials of smart meters have shown users have reductions in consumption of electricity of anything from one to ten per cent over a year. Whether there are financial and environmental benefits depends on a number of factors, including the technology used, the payback period, and the attitude of consumers.

Some consumers get tired of changing their consumption pattern to suit the price and emissions signals the meters give. Others simply change their consumption pattern slightly, doing things like clothes washing and dishwashing outside the peak time. This helps to spread the load across the day, but does nothing to reduce overall demand.

There is an equity issue, too. High-income households have more flexibility to change their energy usage as more of their usage tends to be discretionary, but are less inclined to do so. Low-income consumers spend most of their energy budget on basics like hot water and heating and cooling. As a result, they have less ability to respond to price or consumption signals from retailers without great inconvenience or risk to their health.

On the other hand, meters with displays offer consumers the opportunity to have more control over their consumption, and can potentially reduce costs and greenhouse emissions.